

Message Text

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PAGE 01 MANILA 13428 01 OF 02 260854Z
ACTION TRSE-00

INFO OCT-01 EA-10 ISO-00 NEA-10 IO-13 AID-05 CIAE-00
COME-00 EB-08 FRB-03 INR-07 NSAE-00 USIA-06
XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05
SS-15 STR-04 CEA-01 L-03 H-01 PA-01 PRS-01 /107 W
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FM AMEMBASSY MANILA
TO SECSTATE WASHDC PRIORITY 4286

LIMITED OFFICIAL USE SECTION 1 OF 2 MANILA 13428

USADB

FOR NAC AGENCIES

PASS TREASURY FOR NACHMANOFF/BRADFORD

E.O. 11652: NA
TAGS: EAID, EFIN
SUBJECT: SECOND REPLENISHMENT OF ASIAN DEVELOPMENT FUND
(ADF 111)

REF: MANILA 13086

SUMMARY. ADB MANAGEMENT PROPOSES THAT SECOND REPLENISHMENT OF ASIAN DEVELOPMENT FUND SHOULD CORRESPOND TO LENDING PROGRAM FOR FOUR-YEAR PERIOD 1979 TO 1982, AS COMPARED TO THREE-YEAR PERIOD FOR FIRST REPLENISHMENT. BANK ALSO PROPOSES THAT CONTRIBUTIONS SHOULD TOTAL \$2.15 BILLION. ADB PRESIDENT HAS REQUESTED ENDORSEMENT OF BOARD OF DIRECTORS TO THIS PROPOSED OPERATIONS PROGRAM. USADB REACTION AND COMMENTS MAY BE FOUND IN PARAS. 7 TO 11 OF THIS MESSAGE. NAC GUIDANCE IS REQUESTED. END SUMMARY.

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PAGE 02 MANILA 13428 01 OF 02 260854Z

1. PRIOR TO 1975, ADB FINANCING OF LOANS ON CONCESSIONAL TERMS TO NEEDIEST MEMBER COUNTRIES RESULTED FROM VOLUNTARY CONTRIBUTIONS TO MULTI-PURPOSE SPECIAL FUND AND AGRI-CULTURAL SPECIAL FUND. IN JUNE 1974, ASIAN DEVELOPMENT FUND (ADF) WAS ESTABLISHED TO PROVIDE SYSTEMATIC MECHANISM FOR MOBILIZING AND ADMINTERING SUCH RESOURCES. INITIAL MOBILIZATION (ADF 1) PROVIDED RESOURCES FOR THREE-YEAR

PERIOD ENDING DECEMBER 31, 1975. AT END OF 1975, BOARD OF GOVERNORS AUTHORIZED REPLENISHMENT OF RESOURCES (ADF 11) TO FINANCE BANK'S CONCESSIONAL LENDING IN 1976-1978 PERIOD. BANK IS NOW LOOKING TO FURTHER REPLENISHMENT OF ADF (ADF 11) TO CARRY ON CONCESSIONAL LENDING OPERATIONS IN YEARS BEYOND 1978.

2. EXPERIENCE TO DATE HAS BEEN THAT ACTUAL LEVEL OF ADF LENDING FROM YEAR TO YEAR HAS FREQUENTLY NOT MATCHED EITHER EXPECTATIONS OF BANK OR NEEDS AND ABSORPTIVE CAPACITY OF ELIGIBLE DMCS. (SEE REFTEL WHICH DEFINES ELIGIBILITY FOR ADF FINANCING AND REVIEWS LENDING CRITERIA FROM ADF.) THIS HAS BEEN DUE LARGELY TO UNCERTAINTIES IN AMOUNT AND TIMING OF RESOURCES INFLOWS AND SHORTFALLS IN RESOURCE AVAILABILITY FOR COMMITMENT PURPOSES. AS RESULT, LEVEL OF LENDING PROJECTED FOR CURRENT YEAR IS, IN REAL TERMS, LITTLE HIGHER THAN THAT ACHIEVED IN 1974.

3. IN ADB WORKING PAPER 6-77, POUCHED AUGUST 23 AND SCHEDULED FOR CONSIDERATION OF BOARD OF DIRECTORS ON SEPTEMBER 13, BANK MANAGEMENT TAKES POSITION THAT CURRENT RATE OF INFLOW OF CONCESSIONAL RESOURCES IS INADEQUATE TO MEET FUTURE NEEDS OF LESS-DEVELOPED COUNTRIES; THAT NON-TRADITIONAL SOURCES CANNOT BE RELIED UPON TO FINANCE WIDE AND GROWING GAP BETWEEN CURRENT LIMITED OFFICIAL USE

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PAGE 03 MANILA 13428 01 OF 02 260854Z

ACCOUNT DEFICITS AND FLOW FROM OECD COUNTRIES, OTHER DONORS AND MULTILATERAL INSTITUTIONS; AND, THEREFORE, IF MINIMUM REQUIREMENTS OF THESE COUNTRIES ARE TO BE MET, A SUBSTANTIALLY HIGHER ORDER OF ASSISTANCE WILL HAVE TO BE PROVIDED IN COMING YEARS BY BOTH TRADITIONAL DONOR COUNTRIES AND INTERNATIONAL LENDING INSTITUTIONS. AT SAME TIME, NUMBER OF LESS DEVELOPED COUNTRIES IN WHICH BANK EXPECTS TO BE ACTIVE WILL BE GREATER IN FUTURE THAN IT HAS BEEN IN PAST TWO OR THREE YEARS. ALSO, BANK CONTEMPLATES SOME EXPANSION OF LOCAL COST FINANCING AND INTRODUCTION OF PROGRAM LENDING.

4. WHILE EACH OF FIRST TWO ADF RESOURCE MOBILIZATION ARRANGEMENTS WAS DESIGNED TO COVER THREE YEARS, FOLLOWING IDA PAPER, WORKING PAPER NOTES THAT (A) A THREE-YEAR REPLENISHMENT INVOLVES BANK AND DONOR COUNTRIES IN ALMOST CONTINUOUS FUND-RAISING EFFORTS; (B) DIFFICULTIES IN IMPLEMENTATION WOULD PROBABLY BE REDUCED IF EXERCISE EXTENDED OVER LONGER TIME PERIOD; AND (C) THREE-YEAR REPLENISHMENT PERIOD ADOPTED BY IFIS HAD LED TO BUNCHING OF FUNDING PROPOSALS TO LEGISLATURES. BANK THEREFORE RECOMMENDS A FOUR-YEAR REPLENISHMENT FOR ADF 111

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PAGE 01 MANILA 13428 02 OF 02 260929Z
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LIMITED OFFICIAL USE SECTION 2 OF 2 MANILA 13428

USADB

FOR NAC AGENCIES

PASS TREASURY FOR NACHMANOFF/BRADFORD

COVERING 1979 THROUGH 1982, WHICH WOULD BE SIMILAR
TO TIME SPAN ADOPTED FOR SECOND GENERAL CAPITAL INCREASE.

5. FOR FOUR-YEAR PERIOD 1979 TO 1982, BANK PROPOSES A
LENDING PROGRAM OF \$2.15 BILLION. UNDER SUCH PROGRAM
ANNUAL LOAN COMMITMENTS WOULD RISE FROM ANTICIPATED \$350
MILLION IN 1978 (COMPARED WITH \$236 MILLION IN 1976 AND
PROJECTED \$250 MILLION IN 1977) TO \$415 MILLION IN 1979,
AND WOULD RISE PROGRESSIVELY TO LEVEL OF \$670 MILLION IN
1982, FOR AVERAGE ANNUAL GROWTH RATE IN LOAN COMMITMENTS
OF 17.6 PERCENT COMPARED WITH 22.6 PERCENT AND 29.3 PER-
CENT RESPECTIVELY FOR AVERAGE ANNUAL GROWTH RATES IN
THREE-YEAR PERIODS FOR ADF 1 AND PROJECTED ADF 11.

6. ADB PRESIDENT HAS REQUESTED ENDORSEMENT OF BOARD TO
PROPOSED OPERATIONAL PROGRAM. ON BASIS OF VIEWS
EXPRESSED BY BOARD AT SEPTEMBER 13 MEETING, BANK WOULD
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PAGE 02 MANILA 13428 02 OF 02 260929Z

ENTER INTO SPECIFIC DISCUSSIONS WITH DEVELOPED MEMBER COUNTRIES CONCERNING PERIOD, AMOUNT AND TERMS OF REPLENISHMENT CONTRIBUTIONS.

7. USADB COMMENT: WE NOTE THAT THE PRESIDENT "REQUESTS THE ENDORSEMENT OF THE BOARD OF DIRECTORS TO THE OPERATIONAL PROGRAM PROPOSED IN THIS PAPER. ON THE BASIS OF THE VIEWS EXPRESSED BY THE BOARD, THE BANK WOULD ENTER INTO SPECIFIC DISCUSSIONS WITH DEVELOPED MEMBER COUNTRIES CONCERNING THE PERIOD, AMOUNT AND TERMS OF REPLENISHMENT CONTRIBUTIONS." THE USADB APPRECIATES THE BANK'S DESIRE TO PROCEED IN AN ORDERLY FASHION CONCERNING THE ADF 111 REPLENISHMENT AND IN PRINCIPLE IT CLEARLY WOULD BE DESIRABLE TO AGREE ON SIZE OF THE RESOURCE GAP BEFORE DISCUSSING THE OVERALL SIZE OF THE REPLENISHMENT AND THE SHARING OF THE AID BURDEN. IT IS ALSO CLEAR, HOWEVER, THAT THERE WOULD BE AT LEAST AN IMPLIED COMMITMENT TO TRY TO OBTAIN THE FUNDS IF ONE AGREED TO AN ADF OPERATIONAL PROGRAM OF THE BANK AMOUNTING TO \$2,150,000,000 OVER A FOUR-YEAR TIME FRAM (1979-82).

8. WE RECOMMEND, THEREFORE, THAT THE U.S. POSITION AT THE SEPTEMBER 13 MEETING BE TO MAINTAIN AS MUCH FLEXIBILITY AS POSSIBLE, AT A MINIMUM TO DELAY MAKING ANY IMPLIED COMMITMENTS UNTIL AFTER THE KYOTO MEETING. IN THIS CONNECTION, WE WOULD PROPOSE TO SAY AT THE SEPTEMBER 13 BOARD MEETING THAT WE REGARD THE PRESENT SESSION AS AN EXPLORATORY ONE; THAT WE HAVE TRANSMITTED THE PAPER TO WASHINGTON FOR DETAILED STUDY; AND THAT WE WILL TRANSMIT THE COMMENTS OF THE BOARD AS WELL AS THE RESPONSES TO THE QUESTIONS THAT WE HAVE. WITH REGARD TO THE LATTER POINT, WE WOULD APPRECIATE WASHINGTON COMMENTS LIMITED OFFICIAL USE

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PAGE 03 MANILA 13428 02 OF 02 260929Z

AND QUESTIONS WE MIGHT RAISE, PARTICULARLY FOCUSING ON CHAPTERS 11 AND 111.

9. INTER ALIA, DO WE HAVE ANY PRELIMINARY DATA RE 1976 WHICH PRESUMABLY WAS A FAR MORE FAVORABLE YEAR THAN 1975. IF TRUE, AND IF 1976 WERE USED AS A BASE, THE ESTIMATED RESOURCE GAP WOULD SEEM TO BE FAR LESS SEVERE THAN THAT POSITED. WITH REGARD TO PARAGRAPH 32, IS IT REASONABLE TO ASSUME THE FOOD DEFICIT OF THE ASIAN DEVELOPING COUNTRIES WILL BECOME MORE SEVERE DURING THE NEXT FIVE YEARS? IS IS REASONABLE TO ASSUME THAT THE LONG-TERM PROSPECTS FOR PRICES OF PRIMARY PRODUCTS EXPORTS VIS-A-VIS MANUFACTURED GOODS AND OIL IMPORTS ARE UNFAVORABLE? PARAGRAPH 42 NOTES THAT WHEN

THE OVERALL RESOURCE REQUIREMENTS FOR THE PERIOD 1976-80
WERE REVIEWED IN 1975, IT WAS PROPOSED THAT THE BANK
SHOULD AIM AT INCREASING THE RATIO OF CONCESSIONAL LOANS
TO TOTAL LENDING "OVER THE NEXT FEW YEARS" TO 40 PERCENT.
UPON CHECKING THIS POINT, WE DISCOVERED THAT THIS SUG-
GESTION APPEARED IN WORKING PAPER ON WHICH BOARD TOOK NO
FORMAL DECISION OR EVEN COMMENTED FULLY. THUS ITS USE AS
THE BASIS FOR THE SIZE OF THE BANK'S ADF PROGRAM CAN BE
QUESTIONED.

10. AS TO MORE GENERAL COMMENTS, WHAT IS THE U.S. VIEW
AS TO THE ALMOST EXCLUSIVE USE OF THE "OVERALL CURRENT
ACCOUNT DEFICIT", AS BEING THE PRINCIPAL DETERMINANT OF
THE NEEDED SIZE OF ECONOMIC ASSISTANCE PACKAGE? CAN
OR SHOULD SOME STUDY BE MADE OF ABSORPTIVE CAPACITY OF
THE POTENTIAL RECIPIENT COUNTRIES? CAN WE SAY ANYTHING
AT THIS STAGE ON THIS SCORE? IN CONNECTION WITH THIS LAST
POINT, REFERENCE IS MADE TO THE DESIRABILITY OF THE RATIO
OF THE ADF LOANS TO IDA LOANS TO ADF RECIPIENTS RISING
FROM 50.7 PERCENT IN 1978 TO 56.3 PERCENT IN 1980.
BETWEEN 1973 AND 1976, TOTAL ADF LOAN COMMITMENTS STOOD
AT ABOUT 48 PERCENT OF TOTAL IDA LOANS TO THESE COUNTRIES.
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PAGE 04 MANILA 13428 02 OF 02 260929Z

SHOULD THERE BE GREATER COORDINATION WITH IDA OR AT LEAST
MORE DETAILED STUDY OF IDA'S PLANNED PROGRAM TO ELIGIBLE
ADB COUNTRIES BEFORE ADB'S OPERATIONAL PROGRAM IS AGREED
UPON? CAN WE SAY ANYTHING ABOUT THE FOUR-YEAR
PROPOSED OPERATIONAL LOAN PROGRAM OR SHOULD DISCUSSION ON
THIS POINT BE SIMPLY POSTPONED FOR KYOTO?

11. WOULD APPRECIATE WASHINGTON RESPONSE AS SOON AS
POSSIBLE, AND WE WOULD WELCOME INTERIM REPLY IF THAT
DEEMED TO BE NECESSARY.

EDMOND

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